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THE LIVESTOCK SITUATION -- ITS PRESENT AND FUTURE

Statement by Gerald B. Thorne, Acting Director, Livestock and Feed Grains Division, Agricultural Adjustment Administration, before 23rd Annual Feeders Day Meeting, College of Agriculture, Lincoln, Neb., on April 18, at 2:30 p.m. Central Standard Time.

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The livestock industry has undergone some very rapid and significant changes since your Annual Feeders Day meeting here a year ago. In fact, excepting for a brief period during the War, I doubt if there is any period on record during which such far-reaching developments in the livestock business have occurred. Supplies at the beginning of the year were unusually large and market prices were rather low. But by the close of the year, supplies on farms had been sharply reduced and market prices had more than doubled. Not only was the total number of livestock on farms sharply reduced in 1934 as a result of adjustment and drought relief programs, but for the first time on record, numbers of all kinds of livestock declined together.

At the beginning of 1934--only a little over 15 months ago, the cattle population of this country was 68,290,000 head or more than 10,000,000 head larger than in early 1928 when the cattle production cycle was at its low point. According to estimates of the Department of Agriculture, the supply of breeding stock was the largest in the history of our country. By the beginning of 1935, however, the number of cattle on farms was 60,667,000 head or 7,600,000 head less than a year earlier. The net reduction during the year amounted to 11 percent.

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Hog numbers were even more sharply reduced during 1934 than cattle numbers. At the beginning of the year, the Department of Agriculture estimated that farmers had on hand about 52,212,000 head of swine, including pigs. By the end of the year, it was estimated that the number of swine on hand had dropped to 37,007,000 head, that is, by a little over 20,000,000 head. Altogether, the decrease in hog numbers during the 12-month period amounted to approximately 35 percent. This reduction in hog population in 1934 was, of course, much the largest ever shown in a single year.

In the case of sheep, there was a decrease of 2,446,000 head or of about 5 percent in numbers on farms during 1934. The total on January 1, 1935, therefore, was 49,766,000 head. In spite of the drought liquidation, however, sheep numbers still are above the 1929 level and also above the average of the past ten years.

Though these reductions in the various kinds of meat animals were pretty general in all regions, they were greatest in the Corn Belt States, particularly in the western part. For example, the reduction in hog numbers in the Western Corn Belt States averaged about 45 percent as compared with the average of about 35 percent for the country as a whole, while the number of hogs on Nebraska farms on January 1, this year, were estimated to be about 54 percent below the number of a year earlier. Cattle and sheep numbers on Nebraska farms were down about 25 per cent.

The big reduction in cattle numbers was largely the result of reduction of feed caused by the drought. Government buying was inaugurated to relieve cattle producers and to conserve the meat of animals that otherwise would have died on the range. This action probably made it possible for farmers to keep somewhat larger numbers of animals on hand than they could have saved if they had not been relieved of distress stock.

You will recall that the 1934 drought first became acute in this part of the country during the month of May. Livestock had come out of the winter in poor condition; feed supplies were low on account of a short crop the season before, and very little good pasture was available for grazing. At the same time, cattle numbers were the largest in many years. Producers had been holding on to their livestock, hoping against hope, that the drought would be broken and that disposal of their animals would be unnecessary.

In view of the serious situation, Congress enacted the Jones-Connally Amendment to the Agricultural Adjustment Act under which the sum of $150,000,000 was made available for making emergency production adjustments in dairy and beef cattle, removing of diseased cattle and supporting and balancing the markets for the dairy and beef industries. Emergency action in the use of these funds was handled by three agencies of the Federal Government, -- the Agricultural Adjustment Administration, the Federal Emergency Relief Administration and the Federal Farm Credit Administration.

I do not need to elaborate further on the details of the cattle buying program. A large part of the emergency purchases were made here in Nebraska and these activities were typical for the country as a whole. Altogether, the Government bought 8,296,398 head of animals at a total cost of about $111,778,192. Purchases in Nebraska totalled 498,904 head at a total cost of about $6,600,407. In addition to these extensive relief purchases, an unusually large number of cattle were disposed of through regular channels. Commercial marketings of cattle for 1934 were about 15 percent larger than in the preceding year.

Roughly, a third of the decrease in cattle numbers during 1934 was in milk stock and about two-thirds in other kinds of cattle. The greatest reduction of any one class of cattle in 1934 was in steers, which totalled about 20 percent. Milk cows showed the smallest reduction of any class, amounting to only 4 percent.

The Government's drought relief buying program, of course, supplanted

the plans for a cattle reduction program which was under consideration by leaders of the cattle industry before the drought struck.

As I have already stated, cattle numbers a year ago were the largest in many years. There was a particularly large accumulation of cows and heifers on farms and ranches. Market receipts of cattle for slaughter also were increasing. Naturally, cattle prices were at a low level. In April 1934 the Cattle Committee of Twenty-five was formed and met with Administration officials to begin developing some kind of adjustment plan. But shortly thereafter, drought conditions became so serious as to demand immediate and emergency action with direct Government aid.

Although the percentage of reduction in hog numbers was greater, the problem of disposing of excess hog supplies was not so acute in 1934 as in the case of cattle. In the first place, a considerable adjustment had already been made in advance of the drought through the emergency pig and sow marketing program during the early fall of 1933. Second, the 1934 corn-hog adjustment and the corn loan programs had helped effectuate a reduction of around 28 percent in the spring pig crop and caused lighter feeding than otherwise would have been the case. This reduction in advance of the drought prevented a surplus problem of similar proportions to that of cattle.

On the one hand, the corn-hog adjustment program held down the number of pigs farrowed in 1934 while the corn loand program, by causing the sealing of 270 million bushels of corn, encouraged more conservative feeding and made more feed available for the summer and fall of 1934 when it was greatly needed. Nebraska farmers alone sealed up nearly 50,000,000 bushels of corn under the Government loan program. If this corn had not been put under seal, a large part of it undoubtedly would have been fed earlier in the season or delivered to terminal elevators.

The reduction in sheep numbers, like the reduction in cattle numbers, came largely as a result of government buying under the drought relief program. The sheep buying activities got under way early in September and, as in the case of cattle, were confined to the emergency drought counties, many of which were in Nebraska.

Of course, the large reduction made in livestock numbers last year has recently been reflected in considerably smaller slaughter supplies. Market receipts began to fall off about the middle of December with the close of the emergency liquidation in livestock. On account of the sharp drop in the spring pig farrowings, the greatest reduction in livestock slaughter supplies has been in hogs. Federally inspected slaughter of hogs during the first three months of this year amounted to only 7,600,000 head or 36 percent under the number slaughtered during the corresponding period a year earlier. By comparison commercial cattle slaughter for the first quarter this year was 10 percent smaller than the first quarter in 1934 but sheep and lamb slaughter was slightly larger.

A consequence of wide general interest resulting from the material change in the total market supplies of livestock during recent months, has been the advance in the livestock and meat prices.

The farm price of hogs in Nebraska advanced from $4.90 per hundred pounds on last December 15 to $8.50 per hundredweight on March 15. In the same time, the Nebraska farm price of cattle advanced from $4.80 per hundred pounds to $8.30. Lambs advanced from $5.60 to $7.40 per hundredweight. These advances are even more impressive when compared with the extremely low prices which prevailed during the winter, 1932-33.

Although livestock and meat prices during recent months have advanced much more than prices of most other products, they are notabnormally out of line. This fact is shown by comparisons of livestock and meat prices with prices of other things since the beginning of the depression. From 1929 to 1933, meat prices declined about 45 percent while the average price of all foods was declining about 35 percent and the average price of non-agricultural products was declining only about 16 percent. During the first three months of this year, livestock prices were about 75 percent higher than for the year 1933, but were 32 percent lower than in

1929. In comparison, prices of non-agricultural products during the first three months of 1935 were within 16 percent of their 1929 level and the wages of industrial workers were within about 20 percent of 1929.

A study of the cost of the various items in a typical industrial worker's family budget indicates that in February, 1935, meat constituted about 7 percent of the total cost of living as compared with 6 percent in 1929. Expenditures for meat in 1933 constituted only 4½ percent of the family budget but that was due to the extremely low level of livestock and meat prices at that time. Excepting for rent, food still is the lowest item on the average consumer's budget, according to a recent study made by the Department of Agriculture.

We often lose sight of the fact that consumers during the past three or four years have been able to purchase meat at bargain prices. Naturally, the recent rise in livestock and meat values--even though not out of line with other costs--seems exorbitant to the average consumer.

It was obvious that consumers would have to pay higher prices for food after the agricultural adjustment program became effective than they had been paying during 1932. An increase in livestock values was absolutely necessary if the farmer was to be enabled to stay in the business of feeding the country. If the low meat prices which prevailed in 1932 had continued, wholesale bankruptcy and complete disaster would have engulfed the livestock-producing group, the largest of all agricultural industries.

Meat production, like meat prices; has been comparing reasonably well with the production of other commodities. Figures from the Federal Reserve Board show that the production of industrial products during the first quarter of 1935 was about 25 percent below that of 1929. The production of meat from livestock slaughtered under federal inspection during the same period, in spite of the ravages of the drought, was about 26 percent below the 1929 level.

The Institute of American Meat Pakers reports that the consumption of meat for the whole year of 1934 was 20 billion pounds as compared with a consumption of 18 billion pounds in 1933. The 1934 per capita consumption of meat was greater than in any year since 1907. In 1934, the average American ate 68 pounds each of pork and beef, 11 pounds of veal, and 6 of lamb, a total equivalent to about 2/5 pound per person per day. Of course, this abnormally high rate of consumption was the result of the unusually heavy slaughter of livestock made necessary by the drought and the existing surpluses at the beginning of the year.

Meat consumption in this country is governed largely by current meat production. It always is possible to get a large quantity of meat consumed if farmers are willing to stand the penalty of low prices necessary to move a large volume of livestock into retail trade channels. The large per capita consumption in 1933 and 1934 was possible only after prices were lowered to the point where consumers, at their current level of income, could afford to take the total volume of meat offered. In appraising the economic status of the livestock industry, therefore, meat consumption figures alone are inadequate and often misleading. Prices, consumers' income and total returns to farmers also must be taken into consideration. Excessive livestock supplies result in an abnormally high level of consumption but they also result in low prices and smaller returns to farmers.

Although slaughter supplies of livestock will be affected to some extent by weather and feed conditions, it is evident that the volume will continue relatively small for a number of months. The inspected slaughter of hogs for 1935 is not expected to exceed 30 million head as compared with a normal inspected slaughter total of around 47½ million head. Inspected cattle slaughter for the calendar year is likely to be less than 8 million head as compared with around 10 million head slaughtered in commercial channels in 1934.

A serious drought situation still exists east of the Rocky Mountains and west of the 100th meridian. Much damage beyond repair in one year has been done in this area. Although the livestock population was reduced sharply in this drought territory last summer and fall, it appears inevitable that additional larger numbers of cattle may have to be moved to areas of more abundant feed supplies or to slaughter. In other sections of the country, the moisture situation is very decidedly improved and if conditions are favorable through the growing season, a strong demand for cattle, both for feeding and breeding purposes, may be expected to develop. This would further reduce the supply of cattle to go for slaughter.

The 1934 drought caused a temporary under-production in hogs. Even so, current hog slaughterings are not as low as they might have been without the adjustment programs. I have already pointed out how the corn loan program made it possible to carry a large volume of corn into the 1934 feeding year and how the corn-hog program helped to make an advance adjustment in pig farrowings. At the same time, all of the various adjustment contracts were liberalized to permit the production of emergency feed crops. Counting in the emergency feed produced under this privilege in the cotton and tobacco areas, it is estimated that the production of emergency crops on the contracted acres last year more than offset the amount of corn that might have been raised on these same acres under the actual drought conditions. If the entire 13 million acres contracted to the Secretary of Agriculture under the corn-hog program had been in corn under last year's conditions, they would have produced less than 200,000,000 bushels.

Feed supplies still are short in relation to livestock supplies at the present time but the reverse of this situation could begin to develop within a year if weather conditions, especially in the Corn Belt, are fairly normal from now on. Although no material change in the livestock population is likely before

next year, feed supplies could be increased materially. The corn acreage control under the 1935 corn-hog program will be a substantial aid in the prevention of an acute surplus of feed grains in the Corn Belt but under favorable weather conditions the feed grain supply yet may be large in relation to livestock supplies. This brings us to a consideration of the longer future.

If the feed grain supply at the end of this year should be relatively large--and it now appears better than a 50-50 chance that it will--the situation would be ripe for the beginning of another major upswing in livestock numbers. Unless there was some organized attempt to head it off, we would expect a new upswing in cattle production to get under way by 1936 or 1937. Then, if history should repeat itself, this upward trend would continue for five or six years until cattle prices had worked so low that another period of liquidation would set in. For the first two or three years of the upswing, there would not be much increase in numbers of cattle slaughtered; there usually is a lag of from two to three years from the time an increase in breeding herds sets in until the larger crop of steers and heifers are grown out. But sooner or later would come the inevitable "squeeze". We were set for just such a "squeeze" a year ago.

In the case of hogs, a sharp upswing in production is likely to get under way in the spring of 1936 unless some kind of production control program is continued. As hogs increase at a much faster rate than cattle, the expansion could easily result in excessive supplies and another period of low prices within two or three years. Such a situation would be reflected in returns to both hog producers and beef producers.

These cycles in cattle and hog production have been major hazards to the livestock industry for many years. The cycle represents a ruthless and wasteful system of keeping a working relationship over a period of years between supply and

demand. Both its upswings and the downswings usually overshoot the mark. Of course, these extreme oscillations merely perpetuate the cyclical tendency.

The present is an opportune time for livestock producers to consider ways and means of controlling the cycles of over- and under-production. There is no immediate problem of disposing of surpluses on hand. The emergency adjustment programs and the drought of last summer eliminated that necessity. In fact, the drought necessitated such a sharp curtailment that some expansion seems warranted. The important thing now simply is to prevent the increase in production from going beyond desirable limits.

The 1935 corn-hog program may be regarded as the first step in that directior It certainly will be an important factor in preventing an over-production of feed grains. Moreover, control of the corn crop, is the most important of the indirect checks on livestock production.

Although it does not seem necessary for cattlemen to be as concerned about the immediate future in production as hog men, nevertheless, one of the vital future problems for all livestock producers is the prevention of the violet fluctuations in production that we have had in the past.

There are a number of ways that balanced production might be obtained. However, the important thing at the moment is a clear recognition of the probability that if left to itself, grain and livestock production undoubtedly will react to current high prices and the drought aftermath by going beyond desirable limits.

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